

VZCZCXRO7560
PP RUEHGR
DE RUEHKG #0223/01 0822006
ZNR UUUUU ZZH
P 232006Z MAR 09
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC PRIORITY 7424
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUCNCOM/EC CARICOM COLLECTIVE

UNCLAS SECTION 01 OF 04 KINGSTON 000223

SENSITIVE
SIPDIS

STATE FOR WHA/CAR (ACADIEUX)(VDEPIRRO)(WSMITH)
WHA/EPSC (MROONEY) (FCORNEILLE)
EEB/ESC/IFD/EPC (McMANUS)

SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [TRY](#) [ENRG](#) [SOCI](#) [EFIN](#) [EINV](#) [FAIR](#) [IADB](#) [IBRD](#)
IMF, KCOR, XL, JM
SUBJECT: JAMAICA: BUSINESS LEADERS DISCUSS WEAKENED STATE OF
JAMAICAN ECONOMY

SUMMARY

1. (SBU) On March 18, Charge James Heg hosted a group of Jamaican business leaders at a lunch to discuss the state of the local economy. The discussions also covered the political dynamics following the decision by the Jamaican Supreme Court on the dual citizenship case. The business leaders were unanimous in their view that the country was in trouble and the Government of Jamaica (GOJ) was basically riding out the crisis. However, they thought the current crisis presented an excellent opportunity for the GOJ to make some of the hard decisions that have been postponed for the past three decades. End summary.

Business Leaders Discuss Jamaica's Economic Crisis

2. (SBU) The March 18 lunch at the CDA's residence included CEO and Chairman of Grace Kennedy Douglas Orane; Deputy Chairman of the Sandals Group of Companies and President of the Private Sector Organization of Jamaica Christopher Zacca; CEO of National Commercial Bank (NCB) Patrick Hylton; and CEO of PayMaster and President of AMCHAM Audrey Marks. Visiting OIG Ambassador Franklin Huddle, Econoff and Econ Specialist attended from the Embassy.

3. (SBU) The Charge started the discussion by soliciting views on the state of the Jamaica economy. Zacca was very direct in his response, stating that the country was in big trouble. He said the cash crunch facing the GOJ, falling consumption, high crime and bureaucracy were major problems facing the country. Declining tax revenues were making it almost impossible for the government to provide any form of fiscal stimulus. He added that things were so dicey that a return to the IMF was a real possibility, despite the attendant political risk of any such eventuality. Zacca said the only bright spark was the continued increase in tourist arrivals, albeit due to heavy discounting and increased marketing particularly in the US market. Orane was of the impression that the economy could get a boost if the government was willing to make it easier to do business. "We are not looking for special incentives, we just want no disincentives" Orane continued.

Interest Rate Policy Divisive

4. (SBU) But it was the vexing issue of Jamaica's high interest rate policy which engendered the most passion among the business leaders. Banker Hylton dissected the central bank's decision to hike rates when other countries were moving them in the other direction. Hylton's starting point was that the hike in rates was a direct response to market forces. However, he said from his discussions

with the central bank there was a willingness to bring rates down. He went on to explain that the disjuncture in the economic framework was largely responsible for the predicament the country faces. He argued that the tenuous debt and fiscal dynamics have led to instability at the macro level. "This instability has filtered to the micro level impacting the already high trade deficit," Hylton continued.

15. (SBU) Hylton said the foreign exchange position worsened when the global crisis intensified affecting Foreign Direct Investment (FDI) and shutting access to the capital market. He said the combination of these factors led to a depletion of foreign exchange inflows, amidst stable demand. Hylton said with local liquidity rising, the economic fundamentals worsening and by extension confidence waning, investors started to switch assets, thus putting pressure on the local currency. He said the central bank initially used a mix of interest rates and reserves to shore up the currency. He said when this intervention failed the bank resorted to moral suasion, but this had little effect on speculators. Hylton said that under the circumstances the central bank was left with little choice but to hike interest rates.

16. (SBU) However, this did not satisfy Zacca, who in conjunction with several other sector leaders have been waging an all out war against the bank's high interest rate policy. Zacca remained adamant that the policy was a disincentive to the very investment required to help the situation. He also maintained that the central bank should allow commercial banks to loan a portion of the reserves it held at the central bank to the productive sector at concessionary rates. Hylton argued that this was not feasible, as commercial banks had to conform to accounting standards and would be punished by their auditors and ratings agencies. (NOTE:

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International Financial Reporting Standards (IFRS) rules dictate that financial instruments be valued on a mark-to-market basis. The concessionary instruments could therefore become impaired if less than the market rate. END NOTE.) He also stated this policy was a sure recipe for risky behavior widely referred to as moral hazard.

Time To Take Hard Decisions

17. (SBU) Orane opined that the harsh reality was that the time had come for the GOJ to make the tough decisions postponed for the past three decades. Using Barbados and Trinidad as a point of reference, Orane, who has business interest, across the Caribbean, explained how these countries were able to make the hard choices and although the decisions paid off in economic terms, in both cases the ruling party lost the subsequent election. Orane said the realization of political costs and the lack of social consensus have influenced successive Jamaican governments to postpone the hard decisions. However, Orane argued that gravity of the existing situation suggested that not even this political dynamic was sufficient to allow the decision to be postponed.

18. (SBU) The business leaders said that while successive governments have had an affinity for crisis management, they expected some major changes during 2009. Zacca suggested that with remittances flat and the bauxite sector collapsing (NOTE: two bauxite plants owned by Russian United Company (UC) RUSAL are closing down at least temporarily, West Indies Alumina Company-WINDALCO-- will close March 31 and Alumina Partners of Jamaica-ALPART--will close on May 15 END NOTE), the GOJ will be forced to take a look at the public sector wage bill, with the best case scenario being a wage freeze. (NOTE: Minister Without Portfolio in the Ministry of Finance and the Public Service, Dwight Nelson told emboffs on March 19 that a wage freeze was almost a done deal. END NOTE). Orane quoting President Barack Obama's Chief of Staff Rahm Emanuel said "Never let a crisis to waste" it would be a shame for Jamaica to let this crisis go to waste as it presented the perfect opportunity to make the hard decisions and then blame it on the crisis.

Bauxite Crisis Concerns Leaders

¶9. (SBU) The leaders also expressed much concern about the pending collapse of the bauxite sector, which is expected to affect entire communities as well as GOJ revenues, which generally runs up to USD 100 million. The leaders were particularly worried about the two plants owned by UC RUSAL, which has its own set of problems. The leaders expressed fear that even if the decision was to close the plants temporarily, they may not reopen. Let us keep in mind that unlike the Canadians and the Americans, the Russians are not known to have a social conscience, Zacca quipped. (NOTE: The following day news broke that UC Rusal plants had taken a decision to close ALPART for up to a year, affecting almost 900 employees. The WINDALCO plant will cease production at the end of March, but no decision has been made on the workforce. END NOTE.)

¶10. (SBU) The bauxite sector meltdown is a serious blow to the GOJ for other reasons. The GOJ is the minority owner (45 percent) of another bauxite plant, Jamaica Alumina Company (JAMALCO) and its equity position in the plant fall has declined from a high of USD 500 million in the 1990s to less than USD 50 million currently. The plant has been bleeding money from a bad deal negotiated by the previous government. The Jamaica Labour Party-led government has moved to divest the minority stake. The global economic decline suggests that the GOJ's decision is purely based on its desire to cut its losses and a deal to sell could see the GOJ assuming contingent liabilities of up to USD 250 million. The bauxite crisis could also stall Jamaica's efforts to adopt coal as a viable alternative energy source, a decision made by the GOJ in an effort to diversify power generation away from thermal generators.

Bauxite Job Losses

¶11. (SBU) The GOJ is also expected to suffer a major setback on wage related tax revenues, as the bauxite sector is by far the highest paying sector in the country. Senior Human Resource Executive at West Indies Alumina Company, Dayton Robinson, told emboff that workers at the company command basic salaries (excluding benefits) ranging from USD 25,000 for supervisors to USD 55,000 for managers.

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But Robinson also explained that the greater portion of remuneration was negotiated in benefits, which ranged from interest free car and furniture loans to annual education grants of almost USD 10,000. Robinson said he was worried about the impact the pending closure could have on workers and surrounding communities, given they had become accustomed to rather affluent lifestyles. He appeared even more concerned about the exposure of local banks, which were already calling for regular updates on the pending closure.

Paradigm Shift Required

¶12. (SBU) Echoing sentiments raised by Minister of Finance and the Public Service Audley Shaw in a meeting with emboffs on March 11, Orane opined that the national conversation had to shift from crisis management to an exploration of new opportunities. Orane said the country had to think seriously about non-traditional areas like call centers, renewable energy (ethanol), sports and music related investments. Zacca argued that a paradigm shift would require a sensible set of policies, as in the current environment most investors were hesitant to try anything new. He said the GOJ could start by addressing the three areas of consensus: (1) crime; (2) taxation; and (3) bureaucracy. The Sandals executive said the aim was to produce things that generate foreign exchange or replace imports. For his part Zacca suggested the GOJ concentrate on providing incentives through targeted tax policy to sectors like manufacture, agriculture and international services. On the issue of crime, Orane said the most cost effective way to arrest the problem was to get convictions and then separate criminals from their assets. In this regard, the leaders thought there was an important role for the USG to play. Charge Heg then pointed out that the USG had already helped put the requisite legal framework in place and it was up to the GOJ to apply the laws on the books.

Immigration Policy

¶13. (SBU) With Jamaica having a high number of workers in the health and education sectors in the US and with demand in these sectors still strong, the leaders suggested that the US immigration policy will be critical. Zacca argued that the US should follow the path Canada to make its immigration policy more of a point system that benefits skilled labor, which would provide a continued outlet for the migration of skilled Jamaican workers who cannot find employment opportunities at home. The benefits derived from Jamaicans in the United States, were not lost on Orane, who runs the biggest remittances business--in partnership with Western Union--in the Caribbean. He said an open immigration policy for skilled workers would keep the last remaining pillar of the Jamaican economy, remittances (now a USD 2 billion industry) afloat.

Politics Takes Center Stage

¶14. (SBU) The discussion shifted to the pending by-elections on March 23 sanctioned by the Supreme Court following its ruling on the first of four dual citizenship cases brought by the opposition People's National Party (PNP) against the ruling JLP (Reftels). The consensus was that the incumbent candidate Daryl Vaz should win comfortably, as the JLP has framed the election as a referendum on the performance of the incumbent, who has a good track record. Zacca also suggested that a win by Vaz should boost the confidence of the JLP, which is in short supply of positive news. However, the leaders were quick to point out that a win by the PNP candidate Kenneth Rowe, who ironically is also a Canadian citizen, could well trigger a general election, as the PNP has framed their campaign as mandate on the performance of the JLP. Zacca therefore opined that a JLP loss would suggest its party has no moral authority to govern. (NOTE: Under the Jamaican Constitution a Commonwealth citizen living in Jamaica for a year can serve in an election. END NOTE).

Concern for JLP Loss

¶15. (SBU) A loss for the JLP would be a disaster for the country right now, Zacca continued. However, he was also quick to point out that given the challenges facing the country half the members of the PNP would not relish the idea of being in government at this time. The leaders also argue that while a JLP win would make it a third consecutive loss for the charismatic PNP President Portia Simpson-Miller, given her popularity it would take a brave individual to challenge her position anytime soon. Zacca was not

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shy about highlighting his discomfort with the PNP, which he branded as a "socialist movement". Zacca, who represents the largest grouping of businesses in Jamaica, was particularly concerned by recent comments made by elements in the PNP, who suggested that the JLP was too close to big business.

COMMENT

¶16. (SBU) The Jamaican economy faces increasing economic challenges as the bauxite sectors shrinks and job losses rise. A prolonged economic downturn in the US resulting in decreased tourist arrivals and lower remittances could be result in the perfect storm for pushing the economy to the brink. Rising crime is a concern among the Jamaican private sector and any noticeable increase in incidents of crime against tourists could lead to a decline in this key sector as well as future foreign direct investment.